

The pharmaceutical industry: uk market



The pharmaceutical industry is characterised as highly complex. The discoveries and the continued developments of medicines are result of human knowledge and advanced technologies. The industry consists of enormous size companies with complex processes and technologies. Typically, this kind of companies have many organisational and management structures. Also, the discovery, development and management distribution systems are extremely costly procedures.

The industry directly employs approximately 73, 000 in the UK and generates an additional 250, 000 jobs in related industries (Department of Business Innovation, 2010). The industry has had a consistent trade surplus for the past twenty years, exporting more pharmaceutical products than it imports (ABPI, 2010). The Great Britain is the third major exporter of pharmaceuticals in the world. This high export volume insulates the industry from economic fluctuations in the UK market.

According to statistics, the publicly funded National Health System in the UK is likely to considerably reduce the funding in subsequent years since the country's finances appear to be significantly affected by recession. The financial year 2008/2009, the budget of the NHS increased by 5, 5%. Yet, experts indicated that the budget of the NHS is like to rise by only 1% in 2009/2010. This increase, combined with inflation is probably equivalent to freezing or decreasing of funding (Q Finance, 2010). The main implication is that the pharmaceutical industry can be affected by macroeconomic problems.

GlaxoSmithKline is a British pharmaceutical, biological and healthcare company and the second largest research-based in the world with an estimated 5, 5% of the market worldwide and 8, 3% of the UK market. Its sales for 2009 were £28, 3 billion and its operating profit £8, 4 billion. It specialises in both medicines and vaccines and covers all the therapeutic areas. But, it is the leader in four main areas: anti-infectives, gastro-intestinal, respiratory and central nervous system. Also, the firm is known for developing vaccines and treatments for cancer (GSK's Annual Report, 2009). Moreover, it employs 99, 000 people in over 100 countries with more than 17, 000 only in the UK. (Website- GSK in the UK, 2010)

On the other hand, AstraZeneca has four main tactics that form the basis of its competitive strategy. The first one is the strength the pipeline of new products. This could be achieved through the continuous improvement of R&D. The second is the growth of the business via continued focus on driving commercial excellence. For example, the initiatives of this priority refer to build on leadership positions in existing markets or expand their presence in emerging markets. The third is the reshape of the business. The idea here is the necessity of creating a new and flexible organisation with financial strength in order to be adapted by a changing business environment. The last is the promotion of a responsible and accountable culture. It is important for an organisation to be recognised by integrity with which it conducts its business. (AstraZeneca's Annual Report, 2009)

This company is one of the world's leading pharmaceuticals with various innovative medicines. Its sales were USD\$ 32, 8 billion and its operating profit USD\$ 13, 6 billion in 2009 (AstraZeneca's Annual Report, 2009). The <https://assignbuster.com/the-pharmaceutical-industry-uk-market/>

firm focuses its operations in six healthcare areas which are: cardiovascular, cancer, infections, gastrointestinal, neurology, respiratory, and inflammation. Also, it employs around 11, 600 people at 17 principal R&D centres in 8 different countries and it has generally, 20 manufacturing sites in 16 countries. (Website: Key facts, 2010)

Recently, AstraZeneca announced a supply partnership with India's Torrent Pharmaceuticals in an attempt to enhance its presence in emerging markets and confront patent losses in blockbuster medicines. It is the first connection with a generic medicine-maker. According to the agreement, Torrent will supply AstraZeneca with 18 generic drugs which it will brand and market them in nine different countries (Business News; Drug Discovery & Development, 2010).

In contrast, Novartis has five strategic initiatives that form its long term sustainable development. The business strengthens its portfolio by evaluating internal and external opportunities in order to remain competitive and improve its position in the market. Also, it intensifies its innovation by developing new products according to people's needs. The expansion in high-growth markets is another priority of Novartis as well as the improvement of organisational effectiveness. Productivity is a perpetual process and purpose of the firm is to deliver the best possible quality even faster. The final priority refers to performance-oriented culture. Novartis is a company that wants to create value for both patients and customers. (Novartis Annual Report, 2009)

This firm is a global leader in innovative and generics medicines as well as in vaccines and consumer health goods. Its net sales were USD\$ 44, 3 billion and its operating profit USD\$ 1, 1 billion in 2009 (Annual Report, 2009). Also, Novartis in the UK is one of the largest subsidiaries in the world and employs over 3, 500 people on nine sites. The main activities of British Novartis are the manufacturing, the packaging, the customer service and the marketing of products used locally and globally. (Novartis website, 2010)

In January 2010, Novartis announced its immediate plan to gain full ownership of the Alcon Inc., a company that specialises in eye care, via completion deal with Nestle S. A. to attain its 77% majority stake of Alcon. After that, a proposal of direct merger of Alcon into Novartis is made by stakeholders (Novartis Annual Report, 2009)

4. 1. 2. Threat of New Entrants

The entry barriers into the pharmaceutical sector are particularly high. Pharmaceutical industry faces many challenges that prevent newcomers to enter in this market. The production costs associated with years of R&D are very high and government regulations are strict.

According to the report of House of Commons Health Committee (2005), R&D investments in the UK are worth 3, 3 billion of pounds annually. Additionally, pharmaceutical companies need on average twelve years and more than £500 million investment to bring a new medicine in the market.

The threat of new entrants is particularly low because of the large economies of scale and the high capital requirements that the industry demands. Also,

entrants face many risks associated with capabilities that established companies have developed many years ago. Those capabilities related to their experience, their good relationship with the third parties and the invention of new patents.

Moreover, other barriers to entry could be the differentiation of products and the difficulty in access to distribution channels. Once a company differentiates its products, it becomes immediately unique and creates brand name.

The brand identity of major pharmaceutical firms is strongly associated with customers' loyalty and preferences in brand name medicines. However, new entrants can not easily create a brand name from one moment to another.

Furthermore, the established companies face strict regulations concerning the developing and delivering of their pharmaceutical products. The process of manufacturing a new drug, as we mentioned before, is lengthy and costly and firms invest a great deal of money in R&D. New medicines need approval by the Association of the British Pharmaceutical Industry (ABPI). Another regulation refers to drugs patents that are protected by the firms and generally last about 10 to 15 years. All of the above factors are very discouraging for new entrants.

4. 1. 3. Threat of Substitutes

Generally, the basic substitutes that pharmaceutical industry faces are the generic medicines. Generics are copies of previously patented medicines and do not differ from brand names. Many consumers prefer them because they

are cheaper than the originals. But, unfortunately, generics are not always available as substitutes due to the protection of companies' patents.

Pharmaceutical companies face substitutes for their products when their patents have expired. In this case, the threat for substitutes is medium because of the lower price that generic drugs provide. This happens due to the fact that the companies that produce generics did not have to pay the initial cost of R&D. In contrast, companies have the monopoly of their medicines when their patents are still active. This means that the threat of substitutes is weak and the large pharmaceutical firms have the absolute control in the market and are powerful.

Additionally, other substitutes that pharmaceutical industry in the UK faces are the natural remedies such as herbs and other traditional products as a part of healthiness programmes of private firms (Thinking made easy, 2010). Reports from NHS encourage the people to use these kinds of products which are alternative products in place of branded and generic drugs. Also, there are specific policies that protect the public from those alternative drugs which established by The House of Lords (Department of Health, 2001). Overall, the threat of substitutes is fairly weak.

4. 1. 4. Bargaining Power of Buyers

The pharmaceutical industry consists of many buyers such as patients, doctors, hospitals, drug stores and pharmacists. It is known that buyers can affect businesses by seeking lower prices, high quality and better service. Actually, the main buyers in the UK are the government and the people who obtain prescriptions from medical professionals. Most of the consumers in <https://assignbuster.com/the-pharmaceutical-industry-uk-market/>

Britain purchase pharmaceutical products more frequently in small quantities.

Most of the established pharmaceutical firms have branded medicines in the market, so buyers can choose among a variety of products according to their personal needs and preferences. Additionally, the bargaining power of buyers is not powerful because the switching costs from one product to another are high. Also, buyers in the UK can choose between branded or generic medicines. However, most consumers prefer to buy generic drugs because they are cheaper. Pricing plays an important role to customers and hospitals along with pharmacies are pressing firms to reduce their prices.

The bargaining power of hospitals and drug stores is very high as they purchase large quantities. Many companies do not lower their drug prices and hospitals try to find other firms which are in position to do it. The main reason that pharmaceutical companies pose medicine's patents is because they want to set the prices and monopolise the market.

For many years the medicines were and still be a great necessity to people. Great Britain and most of European countries work with drug prescriptions in hospitals. Consumers prefer to supply their medicines from hospitals because the cost is lower if they have health insurance.

Furthermore, nowadays consumers are fully-informed about the launches of new medicines from the Internet. This gives some kind of power to buyers although not very significant since they do not have full access to important information.

Overall the bargaining power of buyers is quite low because they agree and buy pharmaceutical products, even when firms set high prices. Therefore, the companies have the advantage.

4. 1. 5. Bargaining Power of Suppliers

Pharmaceutical companies have a wide range of suppliers who are essential. They usually provide raw materials, components, intermediates products and other supplies.

One category of suppliers is those who provide raw materials that are necessary for firms' production process. For instance, the process of drugs' packaging includes materials such as foils that cover the tablets of capsules, the bottles that enclose the syrups (Typepad, 2008). In this case the bargaining power of suppliers is very low, although corporations are the major buyers of these inputs. This happens because they are exclusively dependent on the industry to continue to exist.

Another category of suppliers are those who provide other important substances such as colours that used into syrups, sweeteners as well as fruit flavours, inputs that are especially used in children's medicines. Those manufacturers can provide some kind of threat but in the pharmaceutical industry their bargaining power is weak. Their negotiation power is low and they do not charge unreasonable high prices in their products because most of the companies in the UK have their own manufacturing plants.

Also, the switching costs of suppliers and the firms are relatively high, since it is not so simple for companies to change providers even when they

warned to keep back further supply. In this aspect, the bargaining power of suppliers is high.

Generally, suppliers' power is weak and therefore the pharmaceutical companies have the strength to ask for lower prices and arrange better deals.

4. 2 HOW THE FIVE FORCES AFFECT THE INDUSTRY'S PROFITABILITY

The Five Forces model of Porter has generally, a significant influence on the profitability of the industry. In this industry, all the factors except rivalry do not affect considerably the efficiency of the British pharmaceutical companies.

In every industry, the suppliers are a significant ingredient and can seriously affect the firms' marketplace. However, their power is weak since they affect everyone and cannot be thought as a significant force. Therefore, the profitability of pharmaceutical companies does not affected by suppliers.

On the other hand, buyers are powerful when they “ push” firms to lower prices, but their power is really weak when pharmaceutical companies are protected by drug patents. This is the point where firms monopolise the market.

Threat of substitutes is related to buyers' power since consumers can choose between branded and generic medicines. In this point the profitability of pharmaceutical companies might be affected because of the lower prices of generic pharmaceutical products. But, firms with patents on their new inputs

cannot be affected by generics medicines. Also, complementary remedies cannot considerably affect firms' profits since patients prefer the products of big pharmaceuticals. The threat of alternatives inputs is quite low and obviously cannot affect businesses' profits.

The barriers to newcomers are very high and it is difficult for them to enter to such competitive market. Therefore, they cannot negatively influence the profitability of firms.

To conclude, the intensity of rivalry of British pharmaceutical industry is very dynamic and can strongly influence the profitability of its companies. It is important for all businesses to be aware of those five forces in order to gain competitive advantage and be profitable.

5. HOW THE REMOTE ENVIRONMENT AND THE COMPETITIVE ARENA HAS AN EFFECT ON THE PLAYERS WITHIN THE INDUSTRY

In this paper, PEST analysis considered the macro-environment of British pharmaceutical industry and showed all those external factors that limit the operations of an industry.

The main limitations that should be highlighted are the pricing regulation, advertising code of practice, EU directives concerning approval of new pharmaceutical products, labelling requirements and clinical trials. Also, investments in R&D and technological innovation are necessary in this industry but very costly. Patents expire and new medicines should come into the market. Lastly, the demographic changes force the industry to produce

more pharmaceutical products. All the above factors obligate the pharmaceutical companies in the industry to formulate specific strategy.

On the other hand, Porter's Five Forces analysis considered the microenvironment of the industry and relies on the internal environment factors that governing the function of a company. These features may change depending on the organisational structure and business strategy. This model takes into account the relationships that are formulated between the company and other third parties such as consumers, suppliers and competitors and in which way it manages those relationships. The competition among pharmaceutical companies is fierce and has strongly impact on the profitability of the industry. Concerning the other features of Porter's model, they do not influence the competitors since their effect is considerably low. Therefore, there is not any consequence on the profitability of the industry.

5. CONCLUSION

To conclude, the pharmaceutical industry in Great Britain is large, profitable and highly competitive. The continued production and development of new pharmaceutical products is a source of funding of medical research.

The industry's products include many salutary medicines that contribute substantially to the national health as well as to the economy of the country. Additionally, the commercial success of the industry is huge with businesses achieving every year even higher sales.

Most of the companies that operate in the UK have long history and great expertise as well as experience in production of pharmaceuticals. All of them

have a strong sense of responsibility and their main purpose remains the continuous improvement of human life.

In recent times companies face serious challenges such as patents expiries, legal regulations and increased demands from healthcare providers are likely to persist in the future and may be more pronounced. This is the main reasons that lead firms to create an environment that could distribute more development with less danger and an improved financial performance (GSK's Annual report, 2009). GSK, Novartis and AstraZeneca have established long term strategies to maintain their corporate sustainability.

Nowadays, firms face extremely high costs of R&D while the product life cycle is greatly reducing. Moreover, important issues such as product approval, pricing and promotion are always a cornerstone for further arrangements and regulations. These usually are factors that adversely affect companies and consequently, limit their operations. One of the industry's future plans involves further regulations.

Additional plans and thoughts include greater analysis of costs and benefits of medicines used by the NHS. However, this venture is difficult to be achieved because the demand for pharmaceutical products is large and growing. Also, the ageing population in Britain leads to even greater increase in the number of prescription drugs, a trend that will continue to exist in the future. Therefore, it is expected that the most important therapeutic areas will be those associated with age such as cardiovascular diseases and cancers.

According to Royal College of Physicians (2009), the prevalence of Alzheimer's disease will affect 1 million people in the UK by 2025 compared to 700000 today. This is the reason that the demand for more effective therapies may increase in those areas. The same pattern is followed by diabetes disease which is expected to increase from 3 million today to 4-5 million in next years. Moreover, expert expects that the economic demand for cancer care in the UK will increase by 200% which is an extremely high percentage (Sikora K, 2008).

Furthermore, reports from Prescribing Analysis and Cost (PACT) in the UK reveal significant future changes in general practice prescribing. According to their data, the volume of prescriptions rose by 6% in 2007 compared to the previous year's growth of 4, 5% (NHS, 2008). Also, costs of prescription rose by 2, 1% in 2007 compared to the previous year, which accounts for £8 bn.

Generally, the pharmaceutical industry has still untapped potentialities and of course, exciting challenges and opportunities will continue to exist. The market in the UK will continue to be driven by demand for better treatments for devastating diseases affecting its population. This will be beneficial for British pharmaceutical firms. Also, their primary objective now is to expand and develop their operations into promising emerging markets such as China and India. It should be noted that the emerging markets demand higher standards of healthcare because the life and health expectations are very low compared to the developed countries. Therefore, by expanding their activities in these markets, the corporations will be able to offer their products increasing their production and sales.

7. APPENDICES

CRITICAL EVALUATION OF METHODS

PEST analysis is a good strategic technique to analyse the external environment of an industry. However, it does not consider at all the internal factors that might affect the environment of an industry. In my opinion it could be more effective tool in accordance with other relative tools such as SWOT analysis and McKinsey's 7S model (strategy, structure, systems, style, staff and stakeholders). Both of those techniques take into account internal and external factors. Therefore, the combination of those could provide a more complete and analytical picture of the industry's strategic environment.

Kotler (1998) supports that PEST analysis is a useful strategic technique for understanding market growth or decline, industry's position as well as potential and direction for operations. Also, the use of PEST analysis can be efficient for business plans, product developments and research reports. Also, PEST ensures that the performance of a firm is positively related to strong changing forces that are influencing the business environment (Porter, 1985)

The Five Forces analysis is a necessary ingredient of a successful strategy and it is usually used as a complementary help of other techniques such as PEST or SWOT.

Additionally, in my point of view, this technique is strong and useful but it is difficult to concentrate all those factors around a main implication and predict properly the industry's profitability.

Particularly, Porter's Five Forces model combines the structure of an industry to the competitive intensity within it and to the profitability that it realises.

While every industry is unique, competition and profitability are the main components that can influence the structure of that industry. (Grant, 2008).

The most important point that firms should consider within an industry is the dynamics of their industries in order to compete efficiently in the market.

According to Porter (1980) the competitive environment of an industry is created by the interaction of five different forces that act within it.